

FISCAL NOTE

SB 3170 - HB 3093

February 8, 2008

SUMMARY OF BILL: Exempts from state sales and use tax the retail sale and installation of certain energy efficient appliances and energy production devices that are labeled with the ENERGY STAR designation.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - Exceeds \$213,786,500
Foregone State Revenue – Exceeds \$140,000

Decrease Local Revenue – Exceeds \$10,290,700

Assumptions for solar, photovoltaic, and wind energy systems:

- Purchasers of this identified equipment must be enrolled in the Tennessee Valley Authority - Generation Partners (TVA-GP) program in order to be eligible for the state sales tax exemption.
- From information provided by TVA in 2006, taxable sales of qualified equipment for which purchasers were enrolled in the TVA-GP program, were estimated to be less than \$1.0 million per year.
- 5% annual growth of sales since 2006.
- Taxable sales (adjusted for growth) in Tennessee are estimated to be less than \$1,103,000 for FY08-09.
- The exclusion of solar water heating equipment used for the heating or pre-heating of swimming pools is assumed to also apply to hot tubs, spas, etc.
- Demand for photovoltaic (PV) and wind generator systems, for which purchasers would be enrolled in the TVA-GP program, is estimated to increase significantly if this bill passes.
- Future taxable sales of PV equipment and wind generators are estimated to exceed \$2.0 million per year.

Assumptions for all other items:

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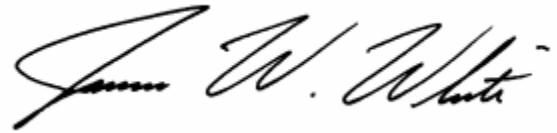
- “Household appliances” are interpreted to mean the following products: refrigerators, freezers, stoves, ovens, clothes washers, clothes dryers, dishwashers, central heating units, central air conditioners, space heaters, room air conditioners, and hot water heaters.
- “Light bulbs” are interpreted to mean compact fluorescent light bulbs.
- Taxable sales for items that would qualify as “other such materials” related to the construction of buildings have not been specifically quantified for the purpose of this fiscal note due to the multiple possible interpretations of the term. As a result, any specific decrease of state revenue estimated as a result of exemptions for household appliances, light bulbs, low-flow toilets, windows, and insulation will be preceded with the language “exceeds” to capture the impact which would be attributable to “other such materials.”
- No restrictions are applied regarding such eligible items being used for residential or business purposes.
- Based on information obtained from the National Renewable Energy Laboratory, the Energy Information Administration, and the American Housing Survey of the U.S. Census, taxable sales in Tennessee for household appliances, light bulbs, low-flow toilets, windows, and insulation are estimated to be \$3.2 billion per year.

Assumptions applicable to state and local governments:

- Total taxable sales are estimated to exceed \$3,021,103,000 ($\$1,103,000 + \$3,200,000,000 = \$3,021,103,000$) per year
- The current state sales tax rate is 7.0%.
- The decrease of state revenue is estimated to exceed \$224,077,200 ($\$3,021,103,000 \times 7.0\% = \$224,077,210$) per year.
- This bill does not exempt the above items from local option sales tax. Therefore, local option sales tax revenue shall remain unchanged.
- This bill does not hold local governments harmless from the loss of state-shared sales tax revenue.
- Under current law, local governments receive a 4.5925% share of state sales tax revenue.
- The decrease of local government revenue is estimated to exceed \$10,290,700 ($\$224,077,200 \times 4.5925\% = \$10,290,745$) per year.
- The net decrease to state revenue is estimated to exceed \$213,786,500 ($\$224,077,200 - \$10,290,700 = \$213,786,500$) per year.
- Foregone state revenue is estimated to exceed \$140,000 ($\$2.0 \text{ million in future taxable sales of PV equipment} \times 7.00\% \text{ state sales tax rate} = \$140,000$) per year.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is written in a cursive style with a large initial "J" and a distinct "W".

James W. White, Executive Director

/rnc